

## Message Text

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6481

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EINV, PK

SUBJ: GOP REAFFIRMS PROFESSED INTEREST IN FOREIGN INVESTMENT

REF: A. ISLAMABAD 3514 B. ISLAMABAD A-114

1. SUMMARY. BY RECENT PUBLIC STATEMENT AND DIRECT ASSURANCES TO EMBASSY, GOP HAS REAFFIRMED ITS INTEREST IN RECEIVING MORE FOREIGN INVESTMENT. THIS IS PREFERRED IN AREAS WHICH ARE EITHER CAPITAL INTENSIVE OR OF HIGH TECHNOLOGY AND SOPHISTICATION. END SUMMARY.

2. ON AUGUST 3 THE GOP ISSUED A PRESS RELEASE QUOTING EXCERPTS FROM A SPEECH MADE IN ZURICH BY THE PAKISTAN AMBASSADOR TO SWITZERLAND. THE SPEECH SAID THAT PAKISTAN PROVIDES ALL SAFEGUARDS TO PROTECT FOREIGN INVESTMENT AND IT EMPHASIZED THAT FOREIGN INVESTMENT HAS NOT BEEN NATIONALIZED AND THAT FOREIGN PARTICIPATION IN NATIONALIZED ENTERPRISES CONTINUES TO ENJOY THE SAME TREATMENT AS BEFORE. THE SPEECH ALSO STATED THAT THERE ARE NO RESTRICTIONS ON TRANSFER OF CAPITAL AND REMITTANCE OF DIVIDENDS. PAKISTAN EXPECTS INVESTORS TO MAKE PROFITS  
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AND AT SAME TIME DEVELOP THE COUNTRY'S ECONOMY.

3. EARLIER, ON JULY 5, THE GOP FINANCE MINISTRY ISSUED GUIDELINES (SEE REF B) CONCERNING THE SPECIFIC FIELDS IN WHICH DOMESTIC PRIVATE INVESTMENT IS ENCOURAGED. THESE WERE : (1) AGRO-INDUSTRIES (2) EXPORT ORIENTED INDUSTRIES, (3) INDUSTRIES USING LOCAL RAW MATERIALS AND MACHINERY, AND (4) INDUSTRIES WHICH USE LOCAL MATERIALS BUT REQUIRE IMPORTED MACHINERY. IN EARLY AUGUST THE EMBASSY INQUIRED OF THE MINISTRY OF FOREIGN AFFAIRS WHETHER THE GUIDELINES ALSO APPLIED TO FOREIGN INVESTMENT. ON AUGUST 7 THE MFA DIRECTOR GENERAL FOR ECONOMIC COORDINATION RESPONDED THAT THIS WAS SO, SUBJECT TO THREE CONDITIONS. THESE WERE: (1) THAT FOREIGN INVESTMENT WOULD GENERALLY NOT BE WELCOME IN SECTORS WHICH HAVE BEEN NATIONALIZED, (2) THAT FOREIGN INVESTMENT WOULD NOT BE WELCOME IN TEXTILE MANUFACTURING, EXCEPT FOR HIGHLY SPECIALIZED KINDS OF TEXTILES, AND (3) THAT ALL INVESTMENT APPLICATIONS WERE SUBJECT TO SCREENING AND APPROVAL BY GOP MINISTRY OF INDUSTRIES. GOP PREFERRED TO RECEIVE FOREIGN INVESTMENT IN AREAS WHICH REQUIRED CAPITAL INTENSIVE INPUTS OR WHERE THERE WAS INVOLVED HIGH TECHNOLOGY AND SOPHISTICATION OF PRODUCT.

4. COMMENT. THE ABOVE GOVERNMENT STATEMENTS GENERALLY REAFFIRM WHAT HAS BEEN PROFESSED GOP POLICY FOR SOME TIME. DESPITE SUCH STATEMENT, LITTLE HAS IN FACT BEEN DONE THROUGH GOP'S ACTUAL POLICY TO ESTABLISH A CLIMATE WHICH WOULD IN FACT ATTRACT FOREIGN INVESTORS AND LITTLE IN THE WAY OF NEW FOREIGN INVESTMENT HAS BEEN TAKING PLACE. A CLIMATE OF DISTRUST IN THE LOCAL AND FOREIGN BUSINESS COMMUNITIES IN FACT PERSISTS FROM VARIOUS GOP NATIONALIZATION ACTIONS OVER THE LAST TWO YEARS, AND BECAUSE OF OPERATIONAL DIFFICULTIES CONNECTED WITH DOMESTIC PRICE CONTROLS. SOME AMERICAN INVESTORS ARE DOING WELL AND NO INVESTOR TO THE EMBASSY'S KNOWLEDGE IS EXPERIENCING PROBLEMS IN REMITTING PROFITS AND ROYALTIES. THE MOST SERIOUS PROBLEM AFFECTING EXISTING INVESTORS IS GOVERNMENT PRICE CONTROLS, REVISIONS OF WHICH TEND TO LAG BEHIND THE RATE OF INFLATION. FURTHERMORE, FEW IF ANY AMERICAN INVESTORS HAVE BEEN ABLE TO PROTECT THEMSELVES AGAINST THE RISK OF EXCHANGE RATE DEVALUATION. NEVERTHELESS,  
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DESPITE THESE CONSTRAINTS, THERE APPEARS TO BE OPPORTUNITIES FOR FOREIGN INVESTORS IN THE FIELDS IN WHICH THE GOP HAS STATED THAT THEY WOULD BE WELCOME.  
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